

Report on the

Alabama Community College System Office

Montgomery, Alabama

October 1, 2019 through September 30, 2020

Filed: October 22, 2021



Department of Examiners of Public Accounts

401 Adams Avenue, Suite 280
Montgomery, Alabama 36104-4338
P.O. Box 302251
Montgomery, Alabama 36130-2251
Website: www.examiners.alabama.gov

Rachel Laurie Riddle, Chief Examiner



Rachel Laurie Riddle
Chief Examiner

State of Alabama
Department of
Examiners of Public Accounts

P.O. Box 302251, Montgomery, AL 36130-2251
401 Adams Avenue, Suite 280
Montgomery, Alabama 36104-4338
Telephone (334) 242-9200
FAX (334) 242-1775

Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

An audit was conducted on the Alabama Community College System Office, Montgomery, Alabama, for the period October 1, 2019 through September 30, 2020, by Examiners Rachel Hamm and Joseph Calvert. I, Rachel Hamm, served as Examiner-in-Charge on the engagement, and under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

Rachel Hamm

Rachel Hamm
Examiner of Public Accounts

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Table of Contents

	<i>Page</i>
Summary	A
Contains items pertaining to state and federal legal compliance, System Office operations and other matters.	
Comments	C
Contains information pertaining to the System Office operations, compliance and other matters.	
Independent Auditor's Report	E
Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).	
Management's Discussion and Analysis	I
Provides information required by the Governmental Accounting Standards Board (GASB) that is prepared by management of the System Office introducing the basic financial statements and providing an analytical overview of the System Office's financial activities for the year. This information has not been audited, and no opinion is provided about the information.	
<u>Basic Financial Statements</u>	1
Provides the minimum combination of financial statements and notes to the financial statements that is required for the fair presentation of the System Office's financial position and results of operations in accordance with GAAP.	
Alabama Community College System Office	
Exhibit #1 Statement of Net Position	2
Exhibit #2 Statement of Revenues, Expenses and Changes in Net Position	4
Exhibit #3 Statement of Cash Flows	5
Notes to the Financial Statements	7

Table of Contents

	<i>Page</i>
<u>Required Supplementary Information</u>	29
Provides information required by the Governmental Accounting Standards Board (GASB) to supplement the basic financial statements. This information has not been audited and no opinion is provided about the information.	
Exhibit #4 Schedule of the Alabama Community College System (ACCS) Office's Proportionate Share of the Collective Net Pension Liability	30
Exhibit #5 Schedule of the Alabama Community College System (ACCS) Office's Contributions – Pension	31
Exhibit #6 Schedule of the Alabama Community College System (ACCS) Office's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability Alabama Retired State Employees' Health Care Trust	32
Exhibit #7 Schedule of the Alabama Community College System (ACCS) Office's Contributions – Other Postemployment Benefits (OPEB) Alabama Retired State Employees' Health Care Trust	33
Notes to Required Supplementary Information for Other Postemployment Benefits (OPEB)	34
<u>Supplementary Information</u>	35
Contains financial information and notes relative to federal financial assistance.	
Exhibit #8 Schedule of Expenditures of Federal Awards	36
Notes to the Schedule of Expenditures of Federal Awards	37
<u>Additional Information</u>	38
Provides basic information related to the System Office, including reports and items required by generally accepted government auditing standards and/or Title 2 U. S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (<i>Uniform Guidance</i>) for federal compliance audits.	
Exhibit #9 Members of Board of Trustees and Officials – a listing of the System Office members and officials.	39

Table of Contents

Page

Exhibit #10	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> – a report on internal controls related to the financial statements and on whether the System Office complied with laws and regulations which could have a direct and material effect on the System Office’s financial statements.	40
Exhibit #11	Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the <i>Uniform Guidance</i> – a report on internal controls over compliance with requirements of federal statutes, regulations, and the terms and conditions of federal awards applicable to major federal programs and an opinion on whether the System Office complied with federal statutes, regulations, and terms and conditions of its federal awards which could have a direct and material effect on each major program.	42
Exhibit #12	Schedule of Findings and Questioned Costs – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by the <i>Uniform Guidance</i> .	45



Department of **Examiners of Public Accounts**

SUMMARY

Alabama Community College System Office October 1, 2019 through September 30, 2020

The Alabama Community College System Office (the “Office”) has oversight authority for the operation, management and the regulation pursuant to Alabama Community College System Board of Trustees’ policies of the twenty-four community and technical colleges and the Alabama Technology Network comprising the Alabama Community College System. It provides technical and legal assistance to the System institutions as well as provides pass-through funds to the colleges for operations and specialized programs.

The Alabama Community College System Office is publicly supported and under the direction and control of the Alabama Community College System Board of Trustees through the Chancellor of the Alabama Community College System.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Office complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, as well as, the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12.

An unmodified opinion was issued on the basic financial statements, which means the Office’s financial statements present fairly, in all material respects, the financial position and the results of its operations for the fiscal year ending September 30, 2020.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state laws and regulations.

EXIT CONFERENCE

The following officials/employees were invited to an exit conference to discuss the results of the audit: Jimmy Baker, Chancellor of the Alabama Community College System; Bryan Helms, Vice-Chancellor for Administrative and Financial Services; and Sara Calhoun, Executive Director of Fiscal Services. The exit conference was held via teleconference. The following individuals represented the System Office: Sara Calhoun, Executive Director of Fiscal Services; Billy Merrill, Associate Director of Financial Services/Special Projects; Brian Harrison, Associate Director of Financial Services/System Support; Jessica Davis, Associate Director of Financial Services/System Support; Donna Boutwell, Director of Compliance; and Julia Dennis, Financial Compliance Accountant. Representing the Department of Examiners of Public Accounts were Annette G. Williams, Audit Manager and Rachel Hamm and Joseph Calvert, Examiners.



Department of **Examiners of Public Accounts**

COMMENTS

Alabama Community College System Office October 1, 2019 through September 30, 2020

The Alabama Legislature established the state two-year college system, providing funding and governance with the passage of Act Numbers 92, 93 and 94 of Acts of Alabama 1963. Act Number 92, Acts of Alabama 1963, on page 257 provided funds to pay the principal and interest on bonds, not exceeding \$15,000,000, issued and sold by the public corporation known as the Alabama Trade School and Junior College Authority. Act Number 93, Acts of Alabama 1963, on page 259 authorized the Governor, the Director of Finance, and the State Superintendent of Education to become a corporation, to be known as the Alabama Trade School and Junior College Authority, for the objective of providing for the construction and equipment of educational institutions within the state known as junior colleges and trade schools. Act Number 94, Acts of Alabama 1963, empowered the State Board of Education to make policy and govern state junior colleges and private junior colleges that received public money. Page 268 of Act Number 94, Acts of Alabama 1963, provided the Alabama State Board of Education the authority and responsibility for the operation, management, control, supervision, maintenance, regulation, upkeep, improvement, equipment, and enlargement of, and additions to, educational institutions known as trade schools and junior colleges. The State Superintendent of Education was given authority over these colleges.

In 1969, Alabama experienced a significant change in public education governance when a constitutional amendment passed that replaced the system of an elected State Superintendent and a State Board of Education appointed by the Governor with an elected state school board that appoints the State Superintendent. The Governor was President of the state school board under both systems.

In May 1982, the Alabama Legislature created the Department of Postsecondary Education (Acts of Alabama, Number 82-486) as a separate department governed by the State Board of Education. The act provided authority for appointing a Chancellor to supervise the work of the department and to serve as chief executive officer of the department in carrying out the board's responsibility to operate and manage the community colleges, technical colleges, and Athens State University. Prior to 1982, the management of community colleges, technical colleges, and Athens State University was delegated by the board to the superintendent of education and the State Department of Education.

On July 2, 1982, the State Board of Education appointed Dr. Howard Gundy as the Department's first Chancellor. Dr. Gundy served as Chancellor until October 20, 1983. His leadership resulted in the establishment of department operational procedures and relocation to the Department's first facility separate from the State Department of Education. Briefly, Vice-Chancellor Lyte Darrow was placed in charge of the Department until December 1, 1983, when Dr. Charles Payne was appointed Chancellor. Dr. Payne organized the Department into functional divisions and established a Department policy manual. Subsequently, Dr. Fred Gainous was appointed Chancellor on March 12, 1988. During his fourteen years of service, Dr. Gainous is credited with reducing the number of lower division two-year colleges, for eliminating racial issues that once plagued the System, for his focus on the delivery of quality educational services, and his continuing emphasis on access to postsecondary education. He also guided the System's transition from the quarter system to the semester system. After Dr. Gainous' resignation, the State Board of Education appointed Dr. Roy W. Johnson as Chancellor effective July 1, 2002. After Dr. Johnson's departure, an interim Chancellor, Dr. Thomas E. Corts, was appointed on August 24, 2006. A search for a new Chancellor yielded the appointment of Mr. Bradley Byrne as the system Chancellor effective May 24, 2007. He was succeeded by Dr. Freida H. Hill who took office on December 1, 2009. Dr. Mark A. Heinrich followed as Chancellor on September 21, 2012. On April 1, 2017, Mr. Jimmy H. Baker, under the newly formed Board of Trustees, was appointed Chancellor following the retirement of Dr. Heinrich.

In 2015, the passage of Alabama Act Number 2015-125 placed the College System under the governance control of the newly created Alabama Community College System Board of Trustees. The Department of Postsecondary Education was renamed the Alabama Community College System.

In 2017, the passage of Alabama Act Number 2017-171 changed the Alabama Community College System from an agency of the State of Alabama to a body corporate under the same name.

The Alabama Community College System includes twenty-four colleges providing excellent, world-class instruction, at the technical and community college level as well as opportunities for entry into the service academies of all branches of the armed forces through Marion Military Institute. The System also provides workforce assessment and training initiatives through the Alabama Technology Network.

The System is provided financial, technical and legal guidance by the Alabama Community College System Office which operates under the direction of the Chancellor.

Independent Auditor's Report

Independent Auditor's Report

Board of Trustees – Alabama Community College System
Jimmy H. Baker, Chancellor – Alabama Community College System Office
Montgomery, Alabama 36130

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Alabama Community College System Office, a component unit of the State of Alabama, as of and for the year ended September 30, 2020, and related notes to the financial statements which collectively comprise the Alabama Community College System Office's basic financial statements as listed in the table of contents as Exhibits 1 through 3.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Alabama Community College System Office, as of September 30, 2020, and its changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, during the fiscal year ended September 30, 2020, the Alabama Community College System Office adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement Number 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the System Office's Proportionate Share of the Collective Net Pension Liability, the Schedule of the System Office's Contributions – Pension, the Schedule of the System Office's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability, the Schedule of the System Office's Contributions – Other Postemployment Benefits (OPEB) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

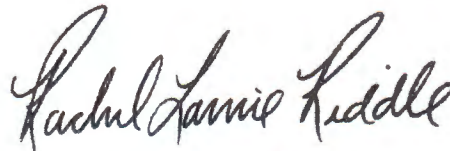
Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Alabama Community College System Office's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 8), is presented for purposes of additional analysis, as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated September 30, 2021, on our consideration of the Alabama Community College System Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alabama Community College System Office's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the Alabama Community College System Office's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

September 30, 2021

Management's Discussion and Analysis
(Required Supplementary Information)



Alabama Community College System Office Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

Alabama Community College System (hereinafter "the ACCS") was created through Alabama Act 2015-125 (the "Act") as an independent department of state government to replace and succeed the duties of the Department of Postsecondary Education. The Act further transferred the authority, powers and duties assigned to the State Board of Education with respect to the supervision, administration, naming, financing, construction and equipping of institutions of postsecondary education, including Alabama Technology Network, community and technical colleges, junior colleges and trade schools, however described, to a newly created Board of Trustees (the "Board"). The Alabama Community College System Board of Trustees plays a critical role in the education of hundreds of thousands of adults each year. The members of the Board of Trustees serve as guardians for the Alabama Community College System's mission and goals, with the Governor serving as chair of the Board by virtue of elected office. The other board members, appointed by the Governor, represent seven districts, with one state-wide member and an ex-officio liaison from the State Board of Education.

ACCS is committed to provide accessible educational opportunities for career preparation, advancement, and lifelong learning throughout Alabama. The ACCS is dedicated to providing a dynamic learner centric environment where excellence in teaching, learning, and serving improves the lives of its students and the communities it serves. The ACCS seeks to maintain a sound fiscal foundation to support its mission in addition to providing responsible stewardship of public funds in compliance with state laws. The Alabama Community College System Office (the "Office") has oversight authority for the operation and management and the regulation pursuant to Alabama Community College System Board of Trustees policies of the twenty-four community and technical colleges and the Alabama Technology Network comprising the Alabama Community College System. It provides technical and legal assistance to the System institutions as well as provides pass-through funds to the colleges for operations and specialized programs. The Alabama Community College System Office is publicly supported and under the direction and control of the Board of Trustees through the Chancellor of the Alabama Community College System.

The accompanying documentation presents the ACCS Office's financial statements for fiscal year 2019-2020. Three financial statements are presented: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. This discussion and analysis of the ACCS Office's financial statements provides an overview of financial activities for the year ended September 30, 2020.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the ACCS Office at September 30, 2020. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the ACCS Office. The Statement of Net Position presents end-of-year data concerning assets (current and non-current), deferred outflows of resources, liabilities (current and non-current), deferred inflows of resources, and net position (Assets and Deferred Outflows minus Liabilities and Deferred Inflows). The difference between current and non-current assets will be discussed in the financial statement disclosures.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the ACCS Office. Readers are able to determine the consumption or acquisition of net assets in one period attributable to future periods included as deferred outflows of resources or deferred inflows of resources, respectively. They are also able to determine how much the ACCS Office owes vendors, investors, and lending institutions. In summary, the Statement of Net Position provides a picture of the ACCS Office's assets and deferred outflows of resources in excess of its liabilities and deferred inflows of resources and the availability of the excess for expenditure by the ACCS Office.

Net Position is divided into two categories. The first category, Net Investment in Capital Assets, provides the ACCS Office's equity in property, plant, and equipment. The second category is Unrestricted Net Position, which is available to the ACCS Office for any appropriate purpose. A condensed Statement of Net Position at September 30, 2020 and 2019 is presented below.

Statement of Net Position

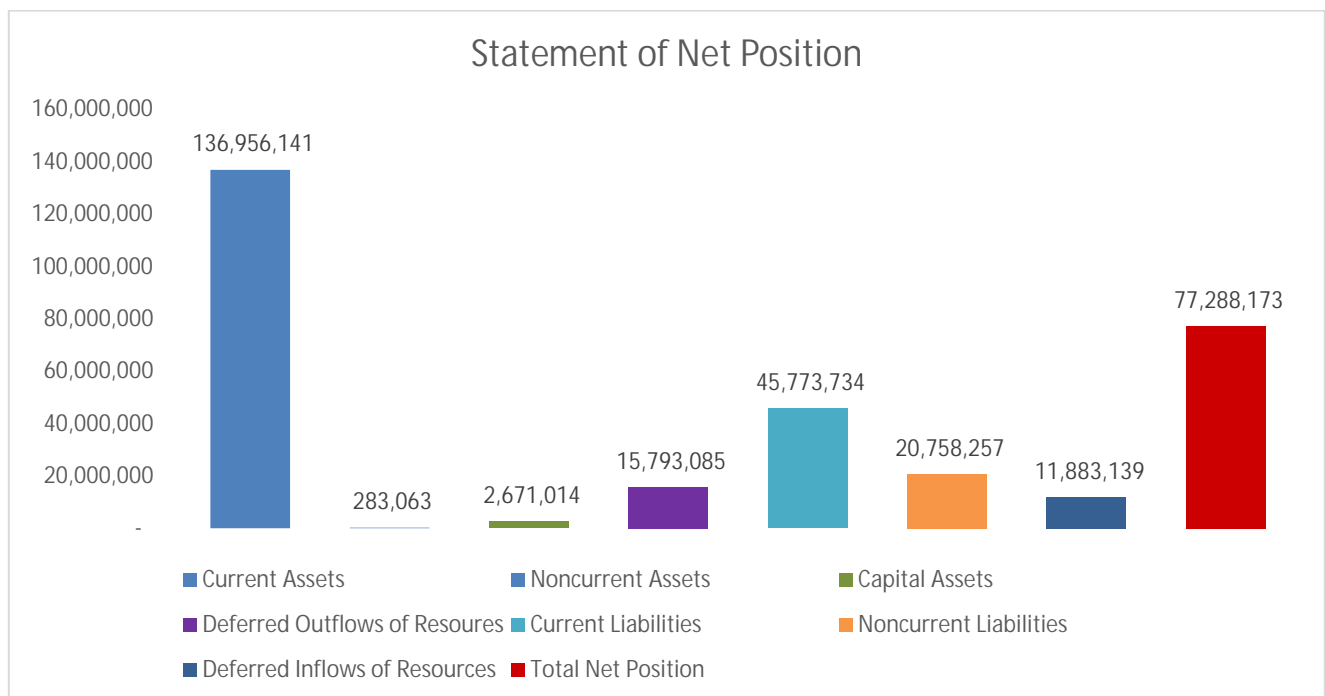
	2019-2020	2018-2019 Restated
Assets		
Current Assets	\$136,956,141	\$76,422,056
Noncurrent Assets	283,063	
Capital Assets, Net	2,671,014	2,792,983
Total Assets	139,910,218	79,215,039
Deferred Outflow of Resources		
Pension	5,235,597	3,772,314
Other Postemployment Benefit (OPEB)	10,557,488	1,645,611
Total Deferred Outflow of Resources	15,793,085	5,417,925
Liabilities		
Current Liabilities	45,773,734	41,652,996
Noncurrent Liabilities	20,758,257	19,926,772
Total Liabilities	66,531,991	61,579,768
Deferred Inflow of Resources		
Pension	438,000	1,093,000
Other Postemployment Benefit (OPEB)	11,445,139	1,306,701
Total Deferred Inflow of Resources	11,883,139	2,399,701
Net Position		
Net Investment in Capital Assets	1,959,645	700,183
Unrestricted	75,328,528	19,953,312
Total Net Position	\$ 77,288,173	\$20,653,495

It is important to note that as of September 30, 2020, the ACCS Office holds \$19,668,254 of Reserve Fund deposits which caused Current Assets and Unrestricted Net Position (Board Designated) to increase. Reserve Fund deposits totaling \$18,226,755 were reported as Current Assets and Deposit Liabilities for the year ended September 30, 2019, prior to the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 84 Fiduciary Activities. These funds were restated to properly reflect the Reserve Fund Deposits as Assets as prescribed by the aforementioned GASB statement. The purpose of the Fund is to guarantee Board-issued revenue bond debt service on behalf of the various Alabama Community College System Institutions. The Fund is managed by the ACCS Reserve Fund Advisory Council that includes the Chancellor of The Alabama Community College System (ACCS) and one president from each Board district. Additionally, prior to October 1, 2018, the fiduciary and financial reporting for the ACCS Office were the responsibilities of the State of Alabama Department of Finance. On October 1, 2018, the ACCS enacted the body corporate authority to manage the financial administration and reporting independent of the Department of Finance.

The ACCS Office purchased land and a building in Decatur, Alabama for approximately \$1,226,000. The building will be utilized as the ACCS Innovation Center. The ACCS Innovation Center will work provide training to students in occupation driven-pathways that lead to in-demand jobs. The ACCS Innovation Center will begin its training in Fiscal Year 2022.

The ACCS Office's total Net Position increased by \$56,634,677 during the year ended September 30, 2020. The increase is attributable to annual appropriations, unobligated cash held from tuition fees, unobligated Education Trust Fund Advanced Technology Funds, unobligated Education Trust Fund appropriations as allowed in Act 2020-169, unspent CARES Act funding, intangible assets, and Reserve Fund holdings.

The following is a graphic presentation of the ACCS Office's Statement of Net Position as of September 30, 2020.



Statement of Revenues, Expenses and Changes in Net Position

Changes in total Net Position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the ACCS Office, both operating and non-operating, and the expenses paid by the agency, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the ACCS Office.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the ACCS Office. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the ACCS Office. Non-operating revenues are revenues received for which specific goods and services are not provided. State appropriations are non-operating because they are provided by the Legislature to the ACCS without the Legislature directly designating how the funds can be used. A large portion of the state appropriation received is distributed to the ACCS member colleges. Readers of these financial statements should gain an understanding of the impact of the presentation of state appropriations as non-operating revenues as required by the Governmental Accounting Standards Board. The impact of the aforementioned presentation is that the ACCS Office continuously generates an operating loss. Typically, an operating loss suggests fiscal concerns which should be addressed by the ACCS Office's administration, the operating loss presented in these financial statements should be viewed in the appropriate context. The ACCS Office considers state appropriations to be an integral component of the fiscal viability of the ACCS Office. Without these appropriations, the ACCS Office would have severe difficulty in achieving its mission of providing guidance and support of accessible educational opportunities across the state. The Statement of Revenues, Expenses, and Changes in Net Position presents a net increase in the Net Position for the year ending September 30, 2020.

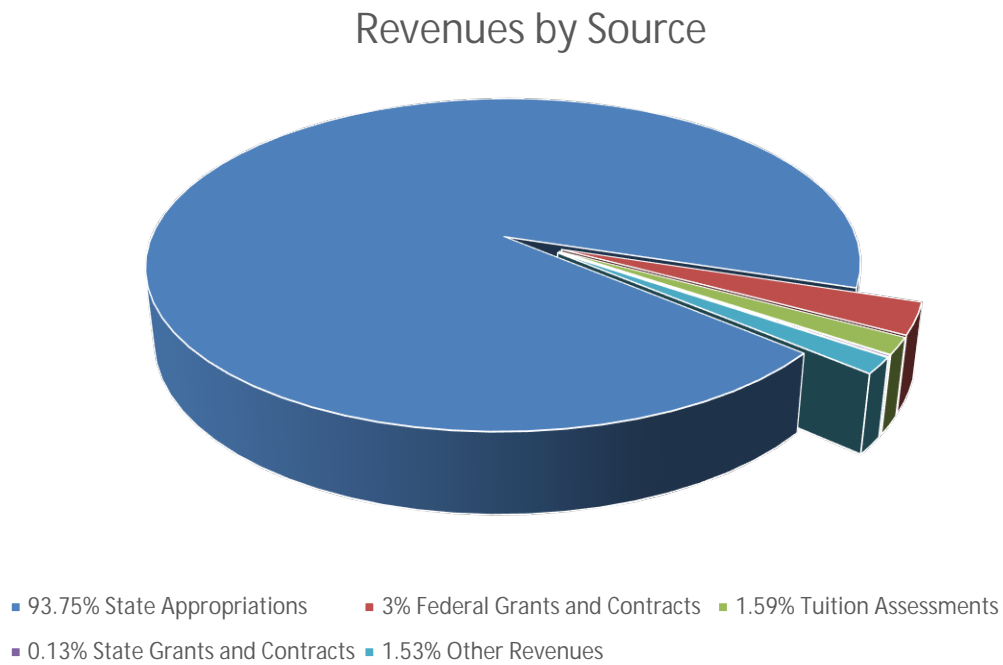
A condensed Statement of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2020 and 2019 is presented below.

Summary Statement of Revenues, Expenses, and Changes in Net Position

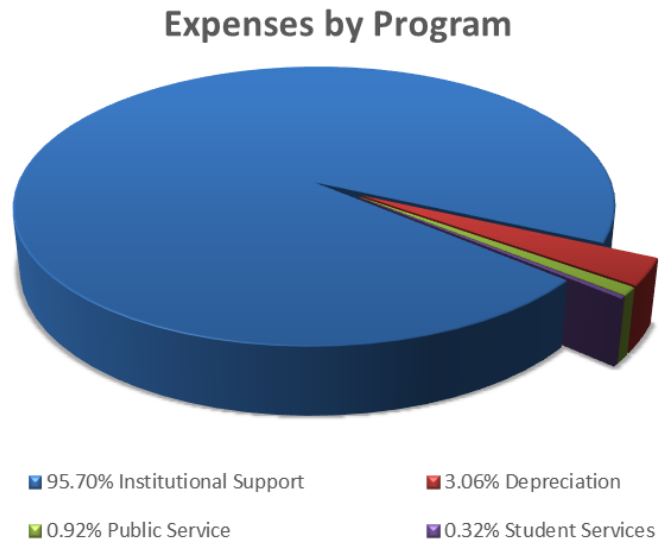
	2019-2020	2018-2019 Restated
Operating Revenues	\$21,984,479	\$18,639,811
Operating Expenses	52,155,831	51,162,575
Operating Loss	(30,171,352)	(32,522,764)
Net non-operating Revenues and Expenses	64,142,597	61,907,281
Change in Net Position	33,971,245	29,384,517
Net Position – Beginning of Year	20,653,495	(9,253,007)
Restatement	22,663,433	521,985
Net Position – End of Year	\$77,288,173	\$20,653,495

Operating Revenues for the year ended September 30, 2020 were increased approximately \$3.3 million with \$1.8 million attributed to the Department of Labor ALAMAP grant and a \$1.6 million increase to the Reserve fund. Operating Expenses for the year ended September 30, 2020 were relatively stable, with a small increase of approximately \$993,257, due to a combination of increased depreciation and amortization expense and reduced spending as a result of COVID-19 limitations. Approximately ninety-six percent of expenses are attributed to institutional support and the remaining expenses distributed in decreasing order through depreciation, public service, and student services.

The following is a graphic presentation of the total revenues by source for the fiscal year ended September 30, 2020.



The following is a graphic presentation of operating expenditures by function for the fiscal year ended September 30, 2020.



Statement of Cash Flows

The final statement presented by the ACCS Office is the Statement of Cash Flows which presents detailed information about the cash activity of the Office during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the Office. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position. The increase of nearly \$47 million over FY 19 is attributable to additional annual appropriations, unobligated cash held from tuition assessments, unobligated Education Trust Fund Advanced Technology Funds, unobligated Education Trust Fund appropriations as allowed in Act 2020-169, and CARES Act funding. A condensed Statement of Cash Flows for the years ended September 30, 2020 and 2019 is presented below.

Summary Statement of Cash Flows

	2019-2020	2018-2019 Restated
Cash Flows from Operating Activities	\$ (18,749,422)	\$(28,692,538)
Cash Flows from Noncapital Financing Activities	68,005,768	97,603,087
Cash Flows from Capital and Related Financing Activities	(2,853,670)	(1,837,629)
Cash Flows from Investing Activities	552,603	284,779
Net Change in Cash	46,955,279	67,357,699
Cash, Beginning of Year	68,538,519	1,180,820
Cash, End of Year	<u>\$115,493,798</u>	<u>\$68,538,519</u>

Economic Outlook

The state budget estimates for fiscal years 2020 and 2021 and the general economic outlook remain relatively static even though the state and national economy are experiencing modest growth. Due to the coronavirus, the Chancellor and Board of Trustees have approved a tuition freeze for fall semester 2021. The ACCS Office administration expects to sustain positive financial stability during the years ahead. As the ACCS Office continues to grow with state-wide college supportive actions, operating costs will increase to meet the demand of increased enrollment and additional program offerings. The ACCS Office plans to utilize funds from the Education Trust Fund, tuition fees, and Federal program funds to continue the expansion of services, statewide. Although there has been an approximate ten percent enrollment decline, statewide, the ACCS Office has a sound fiscal plan to operate without the use of its adequate reserves to meet the ACCS Office's needs in the next two years. The ACCS Office is not aware of any currently known acts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the current fiscal year. The ACCS Office anticipates the next two fiscal years will be challenging as we recover and rebuild from the coronavirus challenges; however, the administration will maintain a close watch over resources to ensure the ACCS Office's ability to respond proactively to internal and external issues, particularly as related to funding.

In addition, the System Office began the transition to the systemwide enterprise resource system in 2018 and was live on October 1, 2018. This system has unified the financial, student, financial aid, and human resource departments throughout all of the colleges and the System Office into one shared environment. As of July 1, 2020, all colleges were live and operating on this new system. This has provided a significant impact to the standardization and availability of real-time data across the system. While growth, training, and efficiencies will continue, this implementation is a true valued-added addition to our System.

Subsequent Events

As with the entire nation, the ACCS System Office and the ACCS institutions have been directly impacted by the COVID-19 pandemic. Continuous and wide-reaching efforts to combat the social, educational, and economic effects have been constant focus of our System since March 2020. The health and safety of Alabama's community college students, faculty, and staff is of the highest priority and Alabama Community College System officials continue to work closely with the Alabama Department of Public Health and monitoring information from the Centers for Disease Control and Prevention (CDC) to ensure that relevant guidance is distributed to our 24 institutions and their students, faculty, and staff in a timely manner. Chancellor Baker has also convened an internal group of health experts, emergency management personnel, and others to plan for any potential impact on the ACCS community.

On October 1, 2020 the ACCS announced the plans for measured openings of colleges for all faculty and staff, beginning with the Spring 2021 term. This guidance was superseded when COVID-19 cases began to significantly increase after November. The updated guidance provided December 11, 2020, allowed college to schedule their opening in a manner that met the needs and retained the health of community being served. Colleges were also encouraged to develop contingency operational plans in the event that a drastic modification to instructional delivery or college operations become necessary. A five-level scale is utilized by each college to gauge the health of the campus for resuming open campuses. The ACCS System Office has also experienced times of remote work environments which necessitated from the surges in COVID-19 cases. However, the System Office is currently on a full-scale on-site work schedule, with isolated cases requiring to be quarantined.

At no time since March 2020, has the pandemic resulted in a student being refused educational access or a staff member losing employment. Faculty and staff have continued to be paid at full salaries through all terms, although their job responsibilities were modified to accommodate the revised learning environments and needs of the colleges. Credit hours comparison to pre-COVID-19 data show a consistent reduction of ten percent per term. However, as the vaccine continues to be disbursed and instructional opportunities continue to grow, we anticipate a recovery of these credit hours by 2022.

Based upon reserves available throughout the System, the ACCS felt confident that lost income equivalent to the loss of the entire Summer term could be managed without any disruption in the ability of the colleges throughout the ACCS to operate and provide services. However, due to the responsive actions of the Chancellor and the college Presidents, every college was able to open for Summer term, via distance learning. While the Chancellor has the authority to transfer funds among ACCS institutions to the extent necessary to allow all institutions to meet their obligations, this has not been necessary.

The long-term impacts of the COVID-19 crisis are still unknown and will be impacted by factors beyond our control, include vaccine access, virus strain strengths, and hospital capacities. However, we have the resources and tools available to meet the needs of our student and staff, while providing safe learning and working environments. Many of these tools are a direct result of the CARES Act: Higher Education Emergency Relief Funds released in mid-2020 and the Coronavirus Response and Relief Supplemental Appropriations Act released in early 2021. Great strides have been made to implement and expand distance learning efforts and accommodations. The System has responded well to the impacts of COVID-19 and will continue to make efforts and advancements to provide the best educational opportunities to our students.

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Basic Financial Statements

Statement of Net Position
September 30, 2020

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 115,493,797.53
Accounts Receivable	21,462,343.45
Total Current Assets	<u>136,956,140.98</u>

Noncurrent Assets

Other Noncurrent Assets	283,062.80
Capital Assets:	
Equipment and Furniture	1,651,601.78
Land	339,800.00
Buildings	886,888.80
Capitalized Software	3,419,806.87
Less: Accumulated Depreciation	<u>(3,627,083.18)</u>
Total Capital Assets, Net of Depreciation	<u>2,671,014.27</u>
Total Noncurrent Assets	<u>2,954,077.07</u>
Total Assets	<u>139,910,218.05</u>

Deferred Outflow of Resources

Defined Benefit Pension Plan	5,235,596.68
Other Postemployment Benefits (OPEB)	10,557,488.00
Total Deferred Outflow of Resources	<u>\$ 15,793,084.68</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

LIABILITIES**Current Liabilities**

Accounts Payable and Accrued Liabilities	\$ 17,701,120.53
Lease Payable	711,369.57
Compensated Absences	60,975.29
Unearned Revenue	27,300,268.35
Total Current Liabilities	<u>45,773,733.74</u>

Noncurrent Liabilities

Compensated Absences	1,703,306.22
Net Pension Liability	13,193,000.00
Net OPEB Liability	5,861,951.00
Total Noncurrent Liabilities	<u>20,758,257.22</u>

Total Liabilities	<u>66,531,990.96</u>
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Deferred Inflow of Resources

Defined Benefit Pension Plan	438,000.00
Other Postemployment Benefits (OPEB)	11,445,139.00
Total Deferred Inflow of Resources	<u>11,883,139.00</u>

Net Position

Net Investment in Capital Assets	1,959,644.70
Unrestricted	<u>75,328,528.07</u>

Total Net Position	<u>\$ 77,288,172.77</u>
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Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2020

OPERATING REVENUES

Student Fee Assessments	\$ 9,153,190.60
Federal Grants and Contracts	12,198,403.66
State Grants and Contracts	632,885.29
Total Operating Revenues	<u>21,984,479.55</u>

OPERATING EXPENSES

Public Service	481,064.87
Student Services	166,882.56
Institutional Support	49,913,675.43
Depreciation	1,594,208.25
Total Operating Expenses	<u>52,155,831.11</u>

Operating Income (Loss)	<u>(30,171,351.56)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	441,977,313.78
State Appropriations Transferred to Colleges	(385,311,335.77)
Federal Grants and Contracts	1,942,514.86
Investment Income	552,602.71
Other Nonoperating Revenues/(Expenses)	4,981,501.25
Net Nonoperating Revenues	<u>64,142,596.83</u>
Changes in Net Position	33,971,245.27
Total Net Position - Beginning of Year, as Restated (Note 12)	43,316,927.50
Total Net Position - End of Year	<u>\$ 77,288,172.77</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Cash Flows
For the Year Ended September 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Student Fee Assessments	\$ (4,404,712.61)
Federal Grants and Contracts	39,498,672.01
State Grants and Contracts	632,885.29
Payments to Suppliers	(40,942,201.75)
Payments to Employees	(10,364,568.78)
Payments for Benefits	(3,169,495.89)
Net Cash Provided (Used) by Operating Activities	<u>(18,749,421.73)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	441,977,313.78
Federal Grants and Contracts	1,942,514.86
State Appropriations Transferred to Colleges	(385,311,335.77)
Other	9,397,274.93
Net Cash Provided (Used) by Noncapital Financing Activities	<u>68,005,767.80</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	(1,472,239.60)
Principal Paid on Capital Debt	(1,381,430.61)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,853,670.21)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>552,602.71</u>
Net Cash Provided (Used) by Investing Activities	<u>552,602.71</u>

Net Increase (Decrease) in Cash and Cash Equivalents	46,955,278.57
Cash and Cash Equivalents - Beginning of Year	68,538,518.96
Cash and Cash Equivalents - End of Year	<u>\$ 115,493,797.53</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Reconciliation of Net Operating Revenues (Expenses) to Net
Cash Provided (Used) by Operating Activities:**

Operating Income (Loss) \$ (30,171,351.56)

**Adjustments to Reconcile Net Operating Income (Loss)
to Net Cash Provided (Used) by Operating Activities:**

Depreciation Expense	1,594,208.25
Changes in Assets and Liabilities:	
(Increase)/Decrease in Receivables, Net	(13,557,903.21)
(Increase)/Decrease in Deferred Outflows	(10,375,159.24)
(Increase)/ Decrease in Other Assets	(283,062.80)
Increase/(Decrease) in Accounts Payable	(4,286,867.22)
Increase/(Decrease) in Unearned Revenue	27,300,268.35
Increase/(Decrease) in Compensated Absences	(657,406.30)
Increase/(Decrease) in Net Pension Liability	3,313,000.00
Increase/(Decrease) in Net OPEB Liability	(1,108,586.00)
Increase/(Decrease) in Deferred Inflows	9,483,438.00
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (18,749,421.73)</u></u>

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Alabama Community College System Office (the “Office”) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Office are described below.

A. Reporting Entity

The Alabama Community College System Office is a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board (GASB) in Statement Number 14, “The Financial Reporting Entity,” states that a primary government is financially accountable for a component unit if it appoints a voting majority of an organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama which through the Alabama Community College System Board of Trustees governs the Alabama Community College System Office. The Alabama Community College System through its Chancellor has the authority and responsibility for the operation, management, supervision and regulation of the Alabama Community College System Office. In addition, the Office receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, the Office is considered for financial reporting purposes to be a component unit of the State of Alabama.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of Alabama Community College System Office have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

It is the policy of the Office to first apply restricted resources when an expense is incurred and then apply unrestricted resources when both restricted and unrestricted resources are available.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and nonoperating revenues. Operating revenues, such as student fee assessments, result from exchange transactions associated with the principal activities of the Office. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. The Office has determined that all federal grants and contracts, state grants and contracts, local grants and contracts and nongovernmental grants and contracts, which are not designated for the purchase of capital assets or nonoperating expenses, will be considered operating revenue. Nonoperating revenues arise from exchange transactions not associated with the Office's principal activities, such as investment income and from all nonexchange transactions, such as state appropriations, and gifts.

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the Office to invest in the same type of instruments as allowed by Alabama law for domestic life insurance companies. This includes a wide range of investments, such as direct obligations of the United States of America, obligations issued or guaranteed by certain federal agencies, and bonds of any state, county, city, town, village, municipality, district or other political subdivision of any state or any instrumentality or board thereof or of the United States of America that meet specified criteria.

Investments are reported at fair value based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost.

2. Receivables

Accounts receivable relate to amounts due from federal grants, state grants, state appropriations, and tuition due from the colleges.

Notes to the Financial Statements

For the Year Ended September 30, 2020

3. Capital Assets

Capital assets, other than intangibles, with a unit cost of over \$5,000 and an estimated useful life in excess of one year are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold for intangible assets such as capitalized software and internally generated computer software is \$1 million and \$100,000 for easements and land use rights and patents, trademarks and copyrights. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at acquisition value (an entry price) at the date of donation. Land, Construction in Progress and intangible assets with indefinite lives are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized.

The method of depreciation and useful lives of the capital assets are as follows:

Assets	Depreciation Method	Useful Lives
Buildings and Improvements	Straight-Line	50 years
Improvements Other Than Buildings	Straight-Line	25 years
Equipment	Straight-Line	5 – 10 years
Capitalized Software	Straight-Line	10 years

4. Deferred Outflows of Resources

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

Notes to the Financial Statements

For the Year Ended September 30, 2020

5. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

6. Compensated Absences

Full-time employees earn 4 hours and 20 minutes of sick leave semi-monthly or 13 days per year with accumulation limited to a maximum of 150 days. Employees may be compensated for one-half of accrued sick leave (maximum of 600 hours) upon retirement from state service or death of the employee. Tier 1 employees have the additional option to apply sick leave to retirement service.

Employees in permanent positions accrue annual leave at a rate of 4 hours and 20 minutes to 9 hours and 45 minutes semi-monthly, depending on length of service. Accumulation is limited to a maximum of 60 days per year. Upon separation from service, an eligible employee is paid for unused leave at the daily pay rate at time of separation.

7. Deferred Inflows of Resources

Deferred inflows of resources are reported in the Statement of Net Position. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position, similar to liabilities.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Teachers' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Notes to the Financial Statements

For the Year Ended September 30, 2020

9. Postemployment Benefits Other Than Pensions (OPEB)

The Alabama Retired State Employees' Health Care Trust (the "Trust") financial statements are prepared by using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

10. Net Position

Net position is required to be classified for accounting and reporting purposes into the following categories:

- ◆ **Net Investment in Capital Assets** – Capital assets, including restricted capital assets, reduced by accumulated depreciation and by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Any significant unspent related debt proceeds or inflows of resources at year-end related to capital assets are not included in this calculation.
- ◆ **Unrestricted** – Net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted resources may be designated for specific purposes by action of management or the Alabama Community College System Office Board of Trustees. The Board of Trustees designated \$19,668,253.90 of net position as Alabama Community College System Reserve Fund. The purpose of the Fund is to guarantee Board-issued revenue bond debt service on behalf of the various System institutions.

11. Federal Financial Assistance Programs

The Office participates in various federal programs. Federal programs are audited in accordance with Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (*Uniform Guidance*).

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 2 – Deposits and Investments

A. Deposits

The Office's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The Statement of Net Position classification "cash and cash equivalents" includes all readily available cash such as petty cash, demand deposits, and certificates of deposits with maturities of three months or less.

Note 3 – Receivables

Receivables are summarized as follows:

<u>Accounts Receivable:</u>	
Federal	\$10,499,120.20
State	2,134,029.33
Other	8,829,193.92
Total Accounts Receivable	<u>\$21,462,343.45</u>

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$	\$ 339,800.00	\$	\$ 339,800.00
Building		886,888.80		886,888.80
Capitalized Software	3,419,806.87			3,419,806.87
Equipment	1,406,050.98	245,550.80		1,651,601.78
Total	4,825,857.85	1,472,239.60		6,298,097.45
Less: Accumulated Depreciation				
Buildings		17,737.78		17,737.78
Capitalized Software	1,334,372.80	1,391,560.21		2,725,933.01
Equipment	698,502.13	184,910.26		883,412.39
Total Accumulated Depreciation	2,032,874.93	1,594,208.25		3,627,083.18
Capital Assets, Net	\$2,792,982.92	\$ (121,968.65)	\$	\$2,671,014.27

Note 5 – Defined Benefit Pension Plan

A. Plan Description

The Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2020

B. Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

C. Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS were required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Notes to the Financial Statements

For the Year Ended September 30, 2020

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2020, was 12.43% of annual pay for Tier 1 members and 11.34% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Office were \$1,223,596.68 for the year ended September 30, 2020.

D. Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2020, the Office reported a liability of \$13,193,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net collective pension liability was determined by an actuarial valuation as of September 30, 2018. The Office's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2019, the Office's proportion was 0.119316%, which was an increase of 0.019943% from its proportion measured as of September 30, 2018.

For the year ended September 30, 2020, the Office recognized pension expense of \$2,418,314.44. At September 30, 2020 the Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 195,000.00	\$438,000.00
Changes of assumptions	406,000.00	
Net difference between projected and actual earnings on pension plan investments	459,000.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,952,000.00	
Employer contributions subsequent to the measurement date	1,224,000.00	
Total	<u>\$5,236,000.00</u>	<u>\$438,000.00</u>

Notes to the Financial Statements

For the Year Ended September 30, 2020

The \$1,224,000.00 reported as deferred outflows of resources related to pensions resulting from Office contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ending:	
September 30, 2021	\$1,021,000.00
2022	\$ 914,000.00
2023	\$ 882,000.00
2024	\$ 725,000.00
2025	\$ 32,000.00
Thereafter	\$ 0

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.70%
Projected Salary Increases	3.25-5.00%
(*) Net of pension plan investment expense	

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

Mortality rates were based on the sex distinct RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the sex distinct RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	<u>100.00%</u>	

(*) Includes assumed rate of inflation of 2.50%.

F. Discount Rate

The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to the Financial Statements

For the Year Ended September 30, 2020

G. Sensitivity of the Office's Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate

The following table presents the Office's proportionate share of the collective net pension liability calculated using the discount rate of 7.70%, as well as what the Office's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Discount Rate (7.70%)	1% Increase (8.70%)
Office's proportionate share of collective net pension liability	\$17,910	\$13,193	\$9,201
(Dollar Amounts in Thousands)			

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2019. The auditor's report dated August 18, 2020, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2019, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Note 6 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Office contributes to the Alabama Retired State Employees' Health Care Trust (the "Trust"), a single-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retired state employees. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the State Employees' Insurance Board (the "Board") to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in SEHIP. Active and retiree health insurance benefits are paid through the State Employees' Health Insurance Plan (SEHIP). In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Comprehensive Annual Financial Report.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The State Employees' Insurance Board (SEIB) serves as the Plan Administrator for the SEHIP. This is a self-insured comprehensive health benefit plan serving active and retired State employees and their dependents. As Plan Administrator, the SEIB is primarily responsible for the control and supervision for the SEHIP. The SEIB is also responsible for designing benefits and setting premiums.

B. Benefits Provided

Retiree medical eligibility is attained when a retired employee with at least ten years of service to the State retires, and is immediately eligible to draw a retirement annuity from the Alabama Employees' Retirement System, the Alabama Judicial Retirement System, and for a small group of employers, the Teachers' Retirement System of Alabama.

The Trust provides basic coverage for up to 365 days of care during each hospital confinement, outpatient care, physicians' benefits, radiation therapy, and major medical benefits with no lifetime maximum. A group dental contract provides dental maintenance coverage with a maximum benefit amount of \$1,500 during each year for each eligible participant who elects coverage. Plan members include State Employees, State Police, and Judges.

The SEHIP remains the primary insurer for medical coverage until the retiree is entitled to Medicare. Health benefits will be modified when the retiree or dependent becomes entitled to Medicare. A Medicare retiree and/or spouse should have both Medicare Parts A and B to have adequate coverage with the State of Alabama. A retiree cannot have SEHIP prescription drug coverage if enrolled for Medicare Part D prescription drug coverage. The SEHIP prescription drug benefit for Medicare retirees and/or spouses is provided through the SEHIP Employer Group Waiver Plan (EGWP).

C. Contributions

The *Code of Alabama 1975*, Section 36-29-19.7, provides the Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

Notes to the Financial Statements

For the Year Ended September 30, 2020

For retirees who retired prior to October 1, 2005, the State pays 100 percent of the premium for a retiree who is over 65 and eligible for Medicare. The State pays a portion of the premium for a retiree who is under 65. Under the SEHIP statute, the State contribution per month per retiree is funded on a pay-as-you-go basis through the active employee premiums each agency pays for its active employees. COBRA insurance is also available to state employees who terminate state service, but the employee is liable for the premiums. For retirees who retire other than for disability after October 1, 2005, the employer contribution is less for each year under twenty-five years of creditable coverage and more for each year over 25. For retirees on or after January 1, 2012, the employer contribution is also less for each year under the Medicare age. The retiree is responsible for the amount of contribution not covered by the State. The State may make additional contributions; however, no additional funds were contributed during the fiscal year. Retiree contributions vary based on the type of contract, dependent coverage, Medicare eligibility, and election, wellness participation, spousal surcharge, and tobacco usage.

A sliding scale premium is applied after September 30, 2005 to all employees retiring after September 30, 2005, based on their years of service. The premium for retiree coverage is broken down into the employer share (what SEHIP pays) and the retiree share. Under the sliding scale, the retiree will still be responsible for the retiree share; however, the employer share will increase or decrease based upon a retiree's years of service. For those employees retiring with 25 years of service, the employer would pay 100% of the employer share of the premium. For each year less than 25, the employer share would be reduced by 2% and the retiree share will be increased accordingly. For each year over 25, the employer share would be increased by 2% and the retiree share reduced accordingly.

For members retiring on or after January 1, 2012, the 2% reduction in the employer share of the premium for each year of service less than 25 will be increased to 4%. In addition, an 1% reduction in the employer share of the premium will be added for each year of age less than the Medicare entitlement age. This additional age premium component will be removed upon attaining Medicare entitlement.

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2020, the Office reported a liability of \$5,861,951.00 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018. The Office's proportion of the collective net OPEB liability was based on a projection of the Office's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2019, the Office's proportion was 0.338889%, which was an increase of 0.098992% from its proportion measured as of September 30, 2018.

Notes to the Financial Statements

For the Year Ended September 30, 2020

For the year ended September 30, 2020, the Office recognized OPEB expense of \$293,475.00 with no special funding situations. At September 30, 2020, the Office reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 4,059,088.00
Changes of assumptions	431,848.00	1,240,117.00
Net difference between projected and actual earnings on OPEB plan investments	3,717.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,946,904.00	6,145,934.00
Employer contributions subsequent to the measurement date	175,019.00	
Total	\$10,557,488.00	\$11,445,139.00

The \$175,019.00 reported as deferred outflows of resources related to OPEB resulting from the Office's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending:	
September 30, 2021	\$(265,756)
2022	\$(265,756)
2023	\$(263,925)
2024	\$(203,710)
2025	\$ (63,522)
Thereafter	\$ 0

Notes to the Financial Statements

For the Year Ended September 30, 2020

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases (1)	3.25% - 5.00%
Long-Term Investment Rate of Return (2)	7.50%
Municipal Bond Index Rate at the Measurement Date	3.00%
Municipal Bond Index Rate at the Prior Measurement Date	4.18%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2035
Single Equivalent Interest Rate at the Measurement Date	3.63%
Single Equivalent Interest Rate at the Prior Measurement Date	4.25%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.75%
Medicare Eligible (3)	
Ultimate Trend Rate	
Pre-Medicare Eligible (4)	4.75%
Medicare Eligible (5)	4.75%
Dental Trend Rate	4.50%

(1) Includes 3.00% wage inflation.

(2) Compounded annually, net of investment expense, and includes inflation.

(3) Initial Medicare claims are set based on scheduled increases through plan year 2022.

(4) In 2026.

(5) In 2024.

Mortality rates for the period after service retirement are according to the sex distinct RP-2000 Blue Collar Mortality Table projected to 2020 using scale BB and adjusted 125% for all ages for males and 120% for ages 78 and over for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Alabama State Insurance Board on September 29, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2018 valuation were based on a review of recent plan experience done concurrently with the September 30, 2018 valuation.

Notes to the Financial Statements

For the Year Ended September 30, 2020

Long-Term Rate of Return

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

Municipal Bond Rate

The discount bond rate uses a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is a 20-year Municipal Bond (rating AA/Aa or higher) rate (Municipal Bond Index Rate). The Municipal Bond Index Rate used, if necessary, for this purpose is the average of the Bond Buyer General Obligation 20-year Municipal Bond Index, the Fidelity General Obligation AA 20-year Municipal Bond Index, and the S&P High Grade 20-year Municipal Bond Index.

Periods of Projected Benefit Payments

Projected future benefit payments for all current plan members were projected through 2117.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	28.20%	4.40%
U.S. Domestic Stocks	55.20%	8.70%
International Developed Market Stocks	10.80%	9.80%
Cash	5.80%	1.50%
Total	<u>100.00%</u>	
(*) Geometric mean, includes 2.5% inflation.		

F. Discount Rate

The Single Equivalent Discount Rate (SEIR) is used in calculating the TOL. The SEIR is determined by calculating the rate that will generate the present value of benefit payments equal to the sum of the present value determined by discounting all projected benefit payments through the depletion date using the long-term expected rate of return and the present value determined by discounting benefit payments after the date of depletion date by using the 20-year municipal bond (rating AA/Aa or higher) rate.

Notes to the Financial Statements

For the Year Ended September 30, 2020

G. Sensitivity of the Office's Proportionate Share of the Collective Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following table presents the Office's proportionate share of the collective net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.75% decreasing to 3.75% for pre-Medicare, Known decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (6.75% decreasing to 4.75% for pre-Medicare, Known decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% decreasing to 5.75% for pre-Medicare, Known decreasing to 5.75% for Medicare Eligible)
Office's proportionate share of the collective net OPEB liability	\$4,885,541	\$5,861,951	\$7,103,174

H. Sensitivity of the Office's Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate

The following table presents the Office's proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 3.63%, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Office 's proportionate share of collective net OPEB liability	\$6,875,187	\$5,861,951	\$5,037,580

Notes to the Financial Statements

For the Year Ended September 30, 2020

I. OPEB Plan Fiduciary Net Position

The Plan's financial report may be obtained via the Internet at <https://www.alseig.org>. The OPEB Plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The Plan's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Plan member contributions are recognized in the period due. Employer contributions are recognized when earned, pursuant to plan requirements. Benefits are recognized when due and payable, in accordance with the terms of the Plan. Revenues are recognized when earned and expenses are recognized when incurred. Investments are reported at fair value and changes in fair value are included in investment income.

Note 7 – Other Significant Commitments

As of September 30, 2020, Alabama Community College System Office had been awarded approximately \$11,855,513.00 in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

Note 8 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2020 for goods and services received prior to the end of the fiscal year.

Benefits	\$ 127,034.42
Supplies and Vendors	17,574,086.11
Total	<u>\$17,701,120.53</u>

Note 9 – Lease Obligations

Operating Lease

The Office is obligated under a lease for facilities accounted for as an operating lease. Operating leases do not give rise to property rights. During the fiscal year ended September 30, 2020, the Office paid a total of \$1,415,856.52 for operating leases.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The following is a schedule by fiscal year of future minimum rental payments required under operating leases for facilities that have an initial or remaining non-cancelable lease term in excess of one year as of September 30, 2020:

Fiscal Year	Facilities
2020-2021	\$ 1,406,623.50
2021-2022	1,423,205.00
2022-2023	1,439,786.50
2023-2024	1,456,368.00
2024-2025	1,474,033.75
2025-2026	1,490,615.25
2026-2027	1,507,196.75
2027-2028	1,523,778.25
2028-2029	1,540,359.75
2029-2030	1,558,025.50
2030-2031	1,574,607.00
2031-2032	1,591,188.50
2032-2033	1,607,770.00
2033-2034	1,624,351.50
2034-2035	1,642,017.25
2035-2036	1,658,598.75
2036-2037	1,675,180.25
2037-2038	1,691,761.75
2038-2039	1,708,343.25
Total Minimum Payments Required	<u>\$29,593,810.50</u>

Capital Lease

The Office leases software which is classified as a capital lease. The Alabama Community College System Office entered into an agreement with Alliant Data System, Inc. for software support services on June 1, 2018.

The following is a schedule by fiscal year of future payments required under the lease as of September 30, 2020:

	Alliant Lease
2020-2021	<u>\$711,369.57</u>
Total Minimum Payments Required	<u>\$711,369.57</u>

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 10 – Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Reduction	Ending Balance	Current Portion
Leases Payable	\$2,092,800.18	\$	\$1,381,430.61	\$ 711,369.57	\$711,369.57
Other Liabilities:					
Compensated Absences	2,421,687.81		657,406.30	1,764,281.51	60,975.29
Total Long-Term Liabilities	<u>\$4,514,487.99</u>	<u>\$</u>	<u>\$2,038,836.91</u>	<u>\$2,475,651.08</u>	<u>\$772,344.86</u>

Note 11 – Risk Management

The Office is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Office has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state owned properties. The Office pays an annual premium based on the amount of coverage requested. The SIF provides coverage up to \$2 million per occurrence and is self-insured up to a maximum of \$6 million in aggregate claims. The SIF purchases commercial insurance for claims which in the aggregate exceed \$6 million. The Office purchases commercial insurance for its automobile coverage, general liability, and professional legal liability coverage. In addition, the Office has fidelity bonds on the Chancellor and Fiscal Services personnel as well as all other Office personnel who handle funds.

Health Insurance

Employee health insurance is provided through the State Employees' Health Insurance Fund (SEHIF) administered by the State Employees' Health Insurance Board (SEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state agencies and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Office contributes a specified amount monthly to the SEHIF for each employee and this amount is applied against the employee's premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the Office's coverage in any of the past three fiscal years.

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 12 – Net Position Restatements

In fiscal year 2020, the Office adopted Governmental Accounting Standards Board (GASB) Statement Number 84, Fiduciary Activities. The provisions of this Statement establish accounting and financial reporting standards for identification of fiduciary activities for accounting and financial reporting purposes. The adoption of this statement has a significant impact on the Office's financial statements. For fiscal year 2020, the Office made a prior period adjustment due to the implementation of GASB Statement Number 84 which required the restatement of the September 30, 2019, Net Position. The result is an increase in Net Position at October 1, 2019 of \$18,226,755.45.

Prior period adjustments have been made as outlined below:

Beginning Net Position, September 30, 2019	\$20,653,495.28
Adjustments Due to Accounting Change:	
GASB 84-Balance of Reserve Funds	18,226,755.45
Other Prior Period Adjustments:	
Properly Reflect Agency Funds	4,320,987.68
Correct Prior Year Revenues	115,689.09
Sub-Total	<u>4,436,676.77</u>
Total Adjustments	<u>22,663,432.22</u>
Net Position, October 1, 2019, as Restated	<u><u>\$43,316,927.50</u></u>

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Required Supplementary Information

***Schedule of the Alabama Community College System (ACCS) Office's
Proportionate Share of the Collective Net Pension Liability
For the Year Ended September 30, 2020
(Dollar amounts in thousands)***

	2020	2019	2018	2017
ACCS Office's proportion of the collective net pension liability	0.119316%	0.099373%	0.090735%	0.078088%
ACCS Office's proportionate share of the collective net pension liability	\$ 13,193	\$ 9,880	\$ 8,918	\$ 8,454
ACCS Office's covered payroll during the measurement period (*)	\$ 8,594	\$ 7,138	\$ 5,928	\$ 4,524
ACCS Office's proportionate share of the collective net pension liability as a percentage of its covered payroll	153.51%	138.41%	150.44%	186.87%
Plan fiduciary net position as a percentage of the total collective pension liability	69.85%	72.29%	71.50%	67.93%

(*) Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based. This is also known as pensionable payroll. For fiscal year 2020, the measurement period for covered payroll is October 1, 2018 through September 30, 2019.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of the Alabama Community College System (ACCS) Office's Contributions - Pension
For the Year Ended September 30, 2020
(Dollar amounts in thousands)

	2020	2019	2018	2017
Contractually required contribution	\$ 1,224	\$ 1,037	\$ 841	\$ 688
Contributions in relation to the contractually required contribution	\$ 1,224	\$ 1,037	\$ 841	\$ 688
Contribution deficiency (excess)	\$	\$	\$	\$
ACCS Office's covered payroll	\$ 10,115	\$ 8,594	\$ 7,138	\$ 5,928
Contributions as a percentage of covered payroll	12.10%	12.07%	11.78%	11.61%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based. This is also known as pensionable payroll. For fiscal year 2020, covered payroll is for the reporting fiscal year of October 1, 2019 through September 30, 2020.

The amount of contractually required contributions is equal to the amount that would be recognized as additions from the ACCS Office's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the ACCS Office's fiscal year. For participants in TRS, this includes amounts paid for Accrued Liability, Normal Cost, Term Life Insurance, Pre-Retirement Death Benefit and Administrative Expenses.

***Schedule of the Alabama Community College System (ACCS) Proportionate Share of the
Collective Net Other Postemployment Benefits (OPEB) Liability
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2020
(Dollar amounts in thousands)***

	2020	2019	2018
ACCS Office's proportion of the collective net OPEB liability	0.338889%	0.239897%	0.219266%
ACCS Office's proportionate share of the collective net OPEB liability (asset)	\$ 5,862	\$ 6,971	6,936
ACCS Office's covered-employee payroll during the measurement period (*)	\$ 9,045	\$ 7,380	5,986
ACCS Office's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	64.81%	94.46%	115.87%
Plan fiduciary net position as a percentage of the total collective OPEB liability	17.16%	33.82%	23.99%

(*) Per GASB 75, covered-employee payroll is defined as the payroll of employees that are provided with OPEB through the OPEB plan. The covered-employee payroll for this RSI Schedule (GASB 75 paragraph 97) is for the reporting period (i.e. the measurement period), which for the September 30, 2020 year is October 1, 2018 through September 30, 2019.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***Schedule of the Alabama Community College System (ACCS) Office's Contributions
Other Postemployment Benefits (OPEB)
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2020
(Dollar amounts in thousands)***

	2020	2019	2018
Contractually required contribution	\$ 175	\$ 253	\$ 193
Contributions in relation to the contractually required contribution	\$ 175	\$ 253	\$ 193
Contribution deficiency (excess)	\$	\$	\$
ACCS Office's covered-employee payroll	\$ 10,371	\$ 9,045	\$ 7,380
Contributions as a percentage of covered-employee payroll	1.69%	2.80%	2.62%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information for Other Postemployment Benefits (OPEB) For the Year Ended September 30, 2020

Changes in Actuarial Assumptions

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience.

In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

Recent Plan Changes

Beginning in plan year 2021, the MAPD plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through a (MAPD) plan.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of pay, open
Remaining Amortization Period	30 years
Asset Valuation Method	Fair Value of Assets
Inflation	2.75%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.00%
Medicare Eligible	5.50%
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75% in 2026
Medicare Eligible	4.75% in 2024
Dental Trend Rate	4.50%
Investment Rate of Return	5.00%, including inflation

Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through To Subrecipients	Total Federal Expenditures
<u>U. S. Department of Education</u>				
<u>Direct Program</u>				
Adult Education - Basic Grants to States	84.002		\$ 8,253,720.99	\$ 9,085,277.74
<u>Passed Through Alabama State Department of Education</u>				
Career and Technical Education - Basic Grants to States	84.048	X200096		528,867.65
<u>U. S. Department of Labor</u>				
<u>Direct Program</u>				
H-1B Job Training Grants	17.268		1,664,696.79	1,824,722.41
<u>U. S. Department of Treasury</u>				
<u>Passed Through State of Alabama Department of Finance</u>				
Coronavirus Relief Fund	21.019	N.A.		44,731.65
<u>Appalachian Regional Commission</u>				
<u>Direct Program</u>				
Appalachian Area Development	23.002		299,531.70	339,020.92
Total Expenditures of Federal Awards			\$ 10,217,949.48	\$ 11,822,620.37

N.A. = Not Available or Not Applicable

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2020

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the Alabama Community College System Office, under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Alabama Community College System Office, it is not intended to and does not present the financial position, changes in net position, or cash flows of Alabama Community College System Office.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

The Alabama Community College System Office has elected not to use the 10-percent de minimis indirect cost rate allowed under the *Uniform Guidance*.

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Additional Information

Members of Board of Trustees and Officials
October 1, 2019 through September 30, 2020

Board Members	Term Expires
Hon. Kay Ivey, Governor	President
Hon. Al Thompson, Chairman District 1	2021
Hon. Milton A. Davis, Vice-Chairman District 6	2023
Hon. John Mitchell District 2	2023
Hon. Susan Foy District 3	2021
Hon. Matthew Woods District 4	2023
Hon. Crystal Brown District 5	2021
Hon. Chuck Smith District 7	2021
Hon. Blake McAnally Member-At-Large	2023
Hon. Jeffrey Newman	Ex-Officio

Officials

Jimmy H. Baker,
Chancellor

Bryan Helms,
Vice-Chancellor for Administrative and Financial Services

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

Board of Trustees – Alabama Community College System
Jimmy H. Baker, Chancellor – Alabama Community College System Office
Montgomery, Alabama 36130

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States, the financial statements of the Alabama Community College System Office, a component unit of the State of Alabama, as of and for the year ended September 30, 2020, and related notes to the financial statements, which collectively comprise the Alabama Community College System Office's basic financial statements and have issued our report thereon dated September 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Alabama Community College System Office's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alabama Community College System Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alabama Community College System Office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

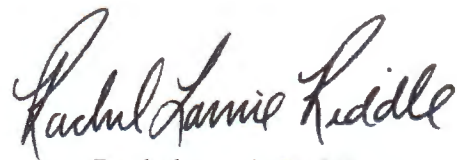
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alabama Community College System Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

September 30, 2021

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

Board of Trustees – Alabama Community College System
Jimmy H. Baker, Chancellor – Alabama Community College System Office
Montgomery, Alabama 36130

Report on Compliance for Each Major Federal Program

We have audited the Alabama Community College System Office's, a component unit of the State of Alabama, compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on each of the Alabama Community College System Office's major federal programs for the year ended September 30, 2020. The Alabama Community College System Office's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with each of the Alabama Community College System Office's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*). Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Alabama Community College System Office's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Alabama Community College System Office's compliance.

Opinion on Each Major Federal Program

In our opinion, the Alabama Community College System Office complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Report on Internal Control Over Compliance

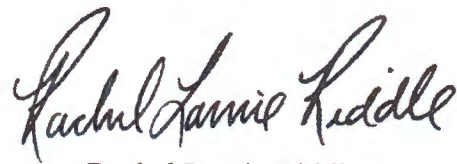
Management of the Alabama Community College System Office is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Alabama Community College System Office's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Alabama Community College System Office's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

***Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance***

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

September 30, 2021

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2020

Section I – Summary of Examiner's Results

Financial Statements

Type of report the auditor issued on whether the audited financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the *Uniform Guidance*?

_____ Yes X No

Identification of major federal programs:

CFDA Numbers	Name of Federal Program or Cluster
17.268	H-1B Job Training Grants
84.002	Adult Education – Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000.00

Auditee qualified as low-risk auditee?

_____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2020

Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III – Federal Awards Findings and Questioned Costs

No matters were reportable.